

# Virginia Department of Taxation

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Joint Subcommittee  
to Study Tax Preferences

## Service Exemptions

June 18, 2013

# ***Taxation of Services***

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## **Virginia Policy**

- Virginia currently taxes:
  - Services included in sale of tangible personal property (23VAC10-210-4040);
  - Services in connection with fabrication of tangible personal property (23VAC10-210-4040);
  - Services in connection with furnishing, preparing or serving meals or other tangible personal property (23VAC10-210-4040);
  - Transient lodging for less than 90 days continuous days. (*Va. Code* § 58.1-603).
- All other services generally exempt.

# ***Taxation of Services***

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## **Revenue Impact of Exemptions**

- In 2012, JLARC estimated the total revenue impact of Retail Sales and Use Tax exemptions to be more than \$6.7 billion
- Some of the largest categories of exemptions include:
  - Services - \$3,518 million
  - Manufacturing - \$917 million
  - Agricultural - \$125 million

# ***Taxation of Services***

## **Potential Taxable Services**

Effective July 1, 2013 Total State and Local Tax Rate	Revenue Estimates (millions)	
	FY14	FY15
<b>Personal Services</b>		
Selected Admissions	\$63.21	\$70.17
Bowling	\$2.60	\$2.89
Carpet & Upholstery Cleaning	\$4.69	\$5.20
Transportation Charges	\$96.66	\$107.30
Funeral & Cemetery Services	\$8.70	\$9.66
Golf Courses and Country Clubs	\$19.18	\$21.29
Hairdressing, nail care, and diet and weight reducing services	\$37.76	\$41.91
Jewelry Repair	\$0.89	\$0.98
Laundry	\$16.48	\$18.30
Marinas	\$2.95	\$3.27
Selected Maintenance and Repair	\$52.14	\$57.88
Membership Fees/Dues	\$25.34	\$28.13
Motor Vehicles	\$138.14	\$153.35
Parking	\$27.04	\$30.02
Pet Care	\$8.64	\$9.59
Shoe Repair	\$0.29	\$0.32
Storage	\$14.78	\$16.41
<b>Subtotal - Personal Services</b>	<b>\$519.48</b>	<b>\$576.66</b>

# ***Taxation of Services***

## **Potential Taxable Services**

Effective July 1, 2013 Total State and Local Tax Rate	Revenue Estimates (millions)	
	FY14	FY15
<b>Business Services</b>		
Advertising	\$97.11	\$107.80
Armored Car	\$2.49	\$2.76
Commercial Art & Graphic Design	\$16.19	\$17.97
Selected Consulting	\$159.42	\$176.97
Court Reporting	\$1.76	\$1.96
Credit Bureaus & Collections	\$32.61	\$36.20
Data Management	\$110.67	\$122.86
Employment	\$234.53	\$260.35
Landscaping	\$79.85	\$88.65
Maintenance and Janitorial	\$57.13	\$63.42
Painting and Wall Covering	\$33.95	\$37.68
Pest Exterminating & Inspection	\$14.23	\$15.80
Security & Investigation	\$52.54	\$58.32
Swimming Pool Maintenance	\$1.72	\$1.91
Taxi & Limousine	\$8.36	\$9.28
Telemarketing, Telephone Answering and Messaging Services	\$29.52	\$32.77
Travel	\$29.95	\$33.25
<b>Subtotal - Business Services</b>	<b>\$962.02</b>	<b>\$1,067.93</b>

# ***Taxation of Services***

## **Potential Taxable Services**

Effective July 1, 2013 Total State and Local Tax Rate	Revenue Estimates (millions)	
	FY14	FY15
<b>Professional Services</b>		
Accounting	\$143.23	\$158.99
Architectural	\$33.09	\$36.74
Computer Systems	\$164.88	\$183.03
Engineering	\$202.84	\$225.17
Health	\$1,595.90	\$1,771.59
Land Surveying	\$10.13	\$11.24
Legal	\$235.39	\$261.31
Veterinarians	\$37.62	\$41.76
<b>Subtotal - Professional Services</b>	<b>\$2,423.08</b>	<b>\$2,689.84</b>
<b>Insurance Services</b>		
Insurance agencies and brokerages	\$127.92	\$142.00
<b>Grand Total</b>	<b>\$4,032.50</b>	<b>\$4,476.43</b>

### **Notes:**

- 1) The estimates do not account for all overlap due to the ambiguity surrounding how specific legislation would be written to repeal an exemption.
- 2) No assumption has been made about consumer behavior/elasticity effects if a package of exempt services are repealed. As a result, these estimates would have to be re-examined depending on which services are selected.
- 3) Revenues for FY14 are 11/12ths of the entire year's estimate based on an effective date of July 1, 2013 and initial collections date in August of 2013.
- 4) Certain services currently have specific tangible personal property exemptions and those have been identified within the estimates.
- 5) Total State and Local Tax Rate includes 5.3% statewide tax and 0.7% tax applied regionally in Hampton Roads and Northern Virginia.

# Taxation of Services

## Services Taxable in Surrounding States

Service	D.C.	Kentucky	Maryland	North Carolina	Tennessee	West Virginia
Selected Admissions						
Amusement parks	✓	✓	✓	✓	✓	✓
Circuses & fairs	✓	✓	✓	✓	✓	✓
School Sporting Events	✓		✓	✓	✓	✓
Professional Sporting Events		✓	✓	✓	✓	✓
Bowling		✓			✓	✓
Transportation Charges	✓	✓		✓	✓	✓
Funeral & Cemetery Services						
Barber shops & beauty parlors						
Health clubs/tanning salons/reducing salons						✓
Jewelry Repair	✓				✓	✓
Coin operated laundry						✓
Non coin-operated laundry	✓		✓	✓	✓	✓
Marinas					✓	✓
Membership fees/dues (clubs)		N/A			✓	
Motor Vehicles (repair)	✓				✓	✓
Motor vehicles (wash/wax)					✓	✓
Parking (lots/garages)	✓				✓	✓
Pet grooming						✓
Shoe Repair	✓				✓	✓
Storage (mini)						✓
Armored Car	✓		✓			✓
Taxi						
Limousine	✓					✓
Travel Arrangements						✓

\* Data supplied by Federation of Tax Administrators, Sales Taxation of Services: 2007 Updates

# ***Taxation of Services***

## **Services Taxable in Surrounding States**

**Sales Tax Rates in Surrounding States**

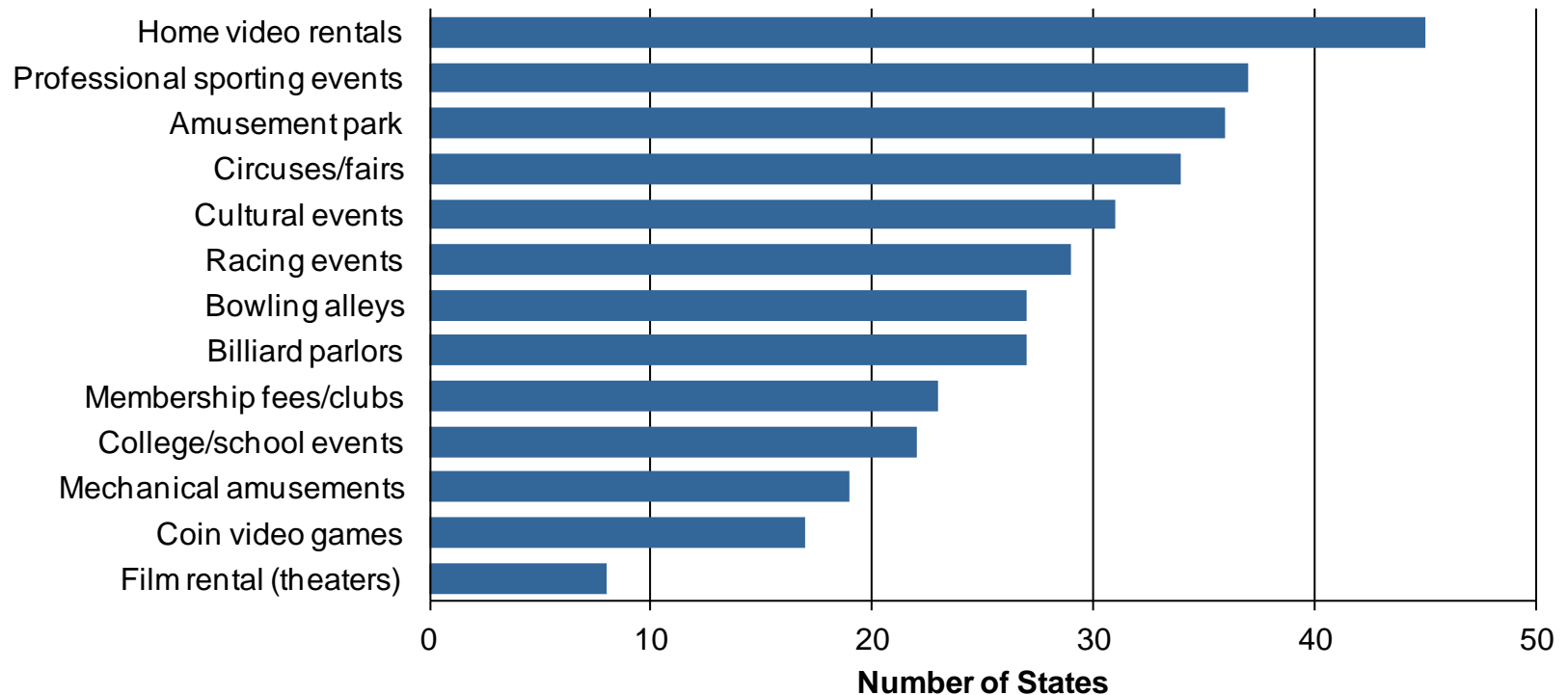
State	State Rate	Range of Local Rates	Amusement Rate
District of Columbia	6%	N/A	N/A
Kentucky	6%	N/A	N/A
Maryland	6%	N/A	10%
North Carolina	4.75%	2 – 2.5%	3%
Tennessee	7%	1.5% - 2.75%	N/A
West Virginia	6%	1%	N/A



# ***Taxation of Services***

## **Services Taxable in Other States\***

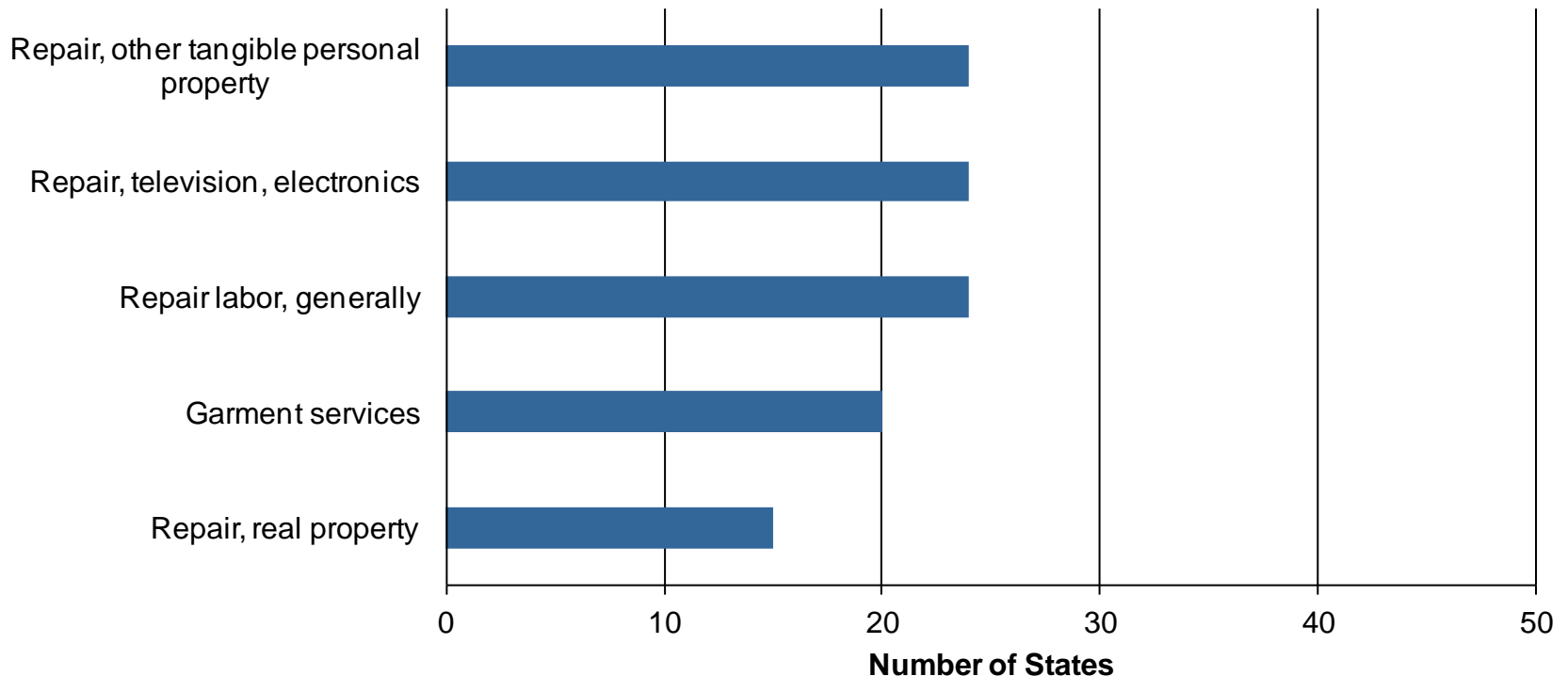
### **Selected Admissions**



# ***Taxation of Services***

## **Services Taxable in Other States\***

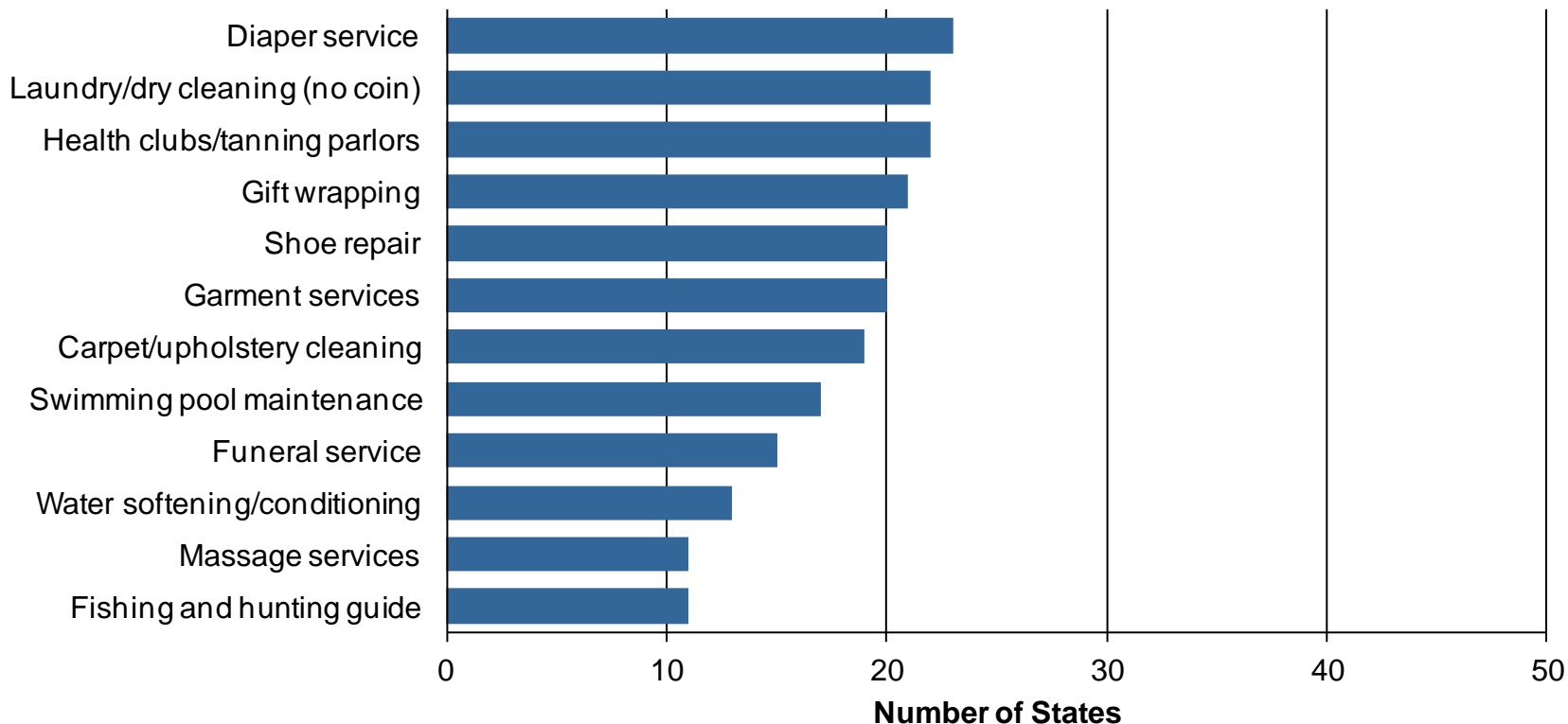
### **Selected Maintenance/Repair**



# Taxation of Services

## Services Taxable in Other States\*

### Additional Personal Services



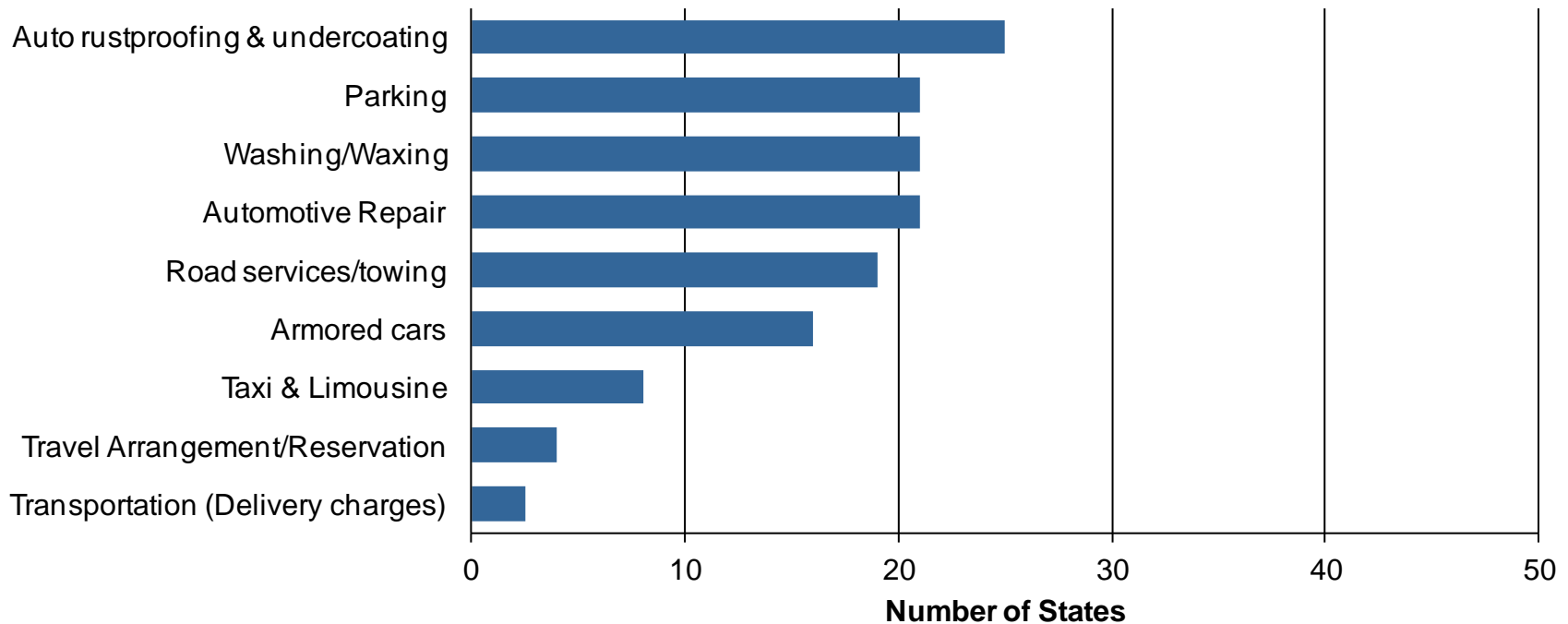
**Less than 10:** Dating services; debt counseling; barber shops/beauty parlors; tax return preparation; personal instruction; coin-operated laundry.

\* Data supplied by Federation of Tax Administrators, *Sales Taxation of Services: 2007 Updates*

# ***Taxation of Services***

## **Services Taxable in Other States\***

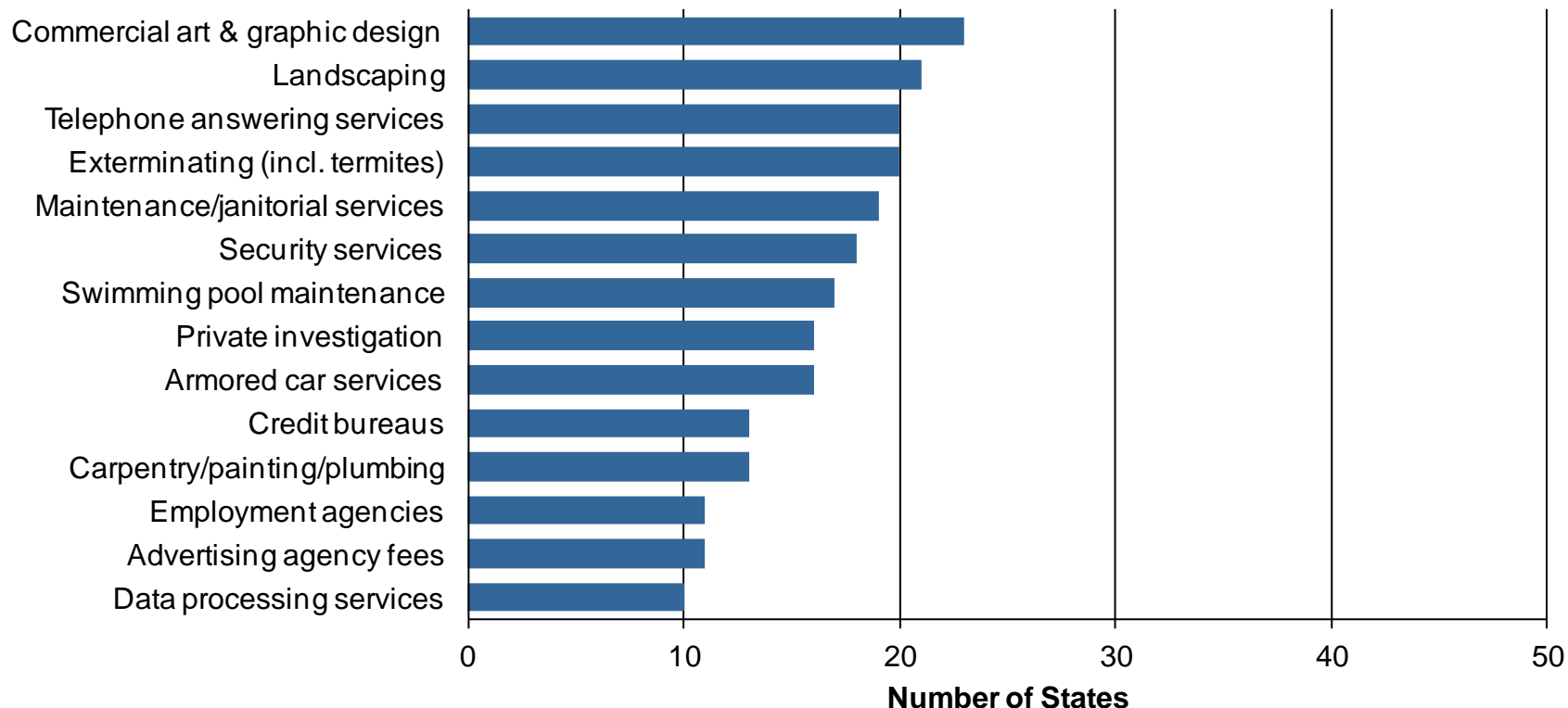
### **Services Related to Transportation**



# Taxation of Services

## Services Taxable in Other States\*

### Business Services

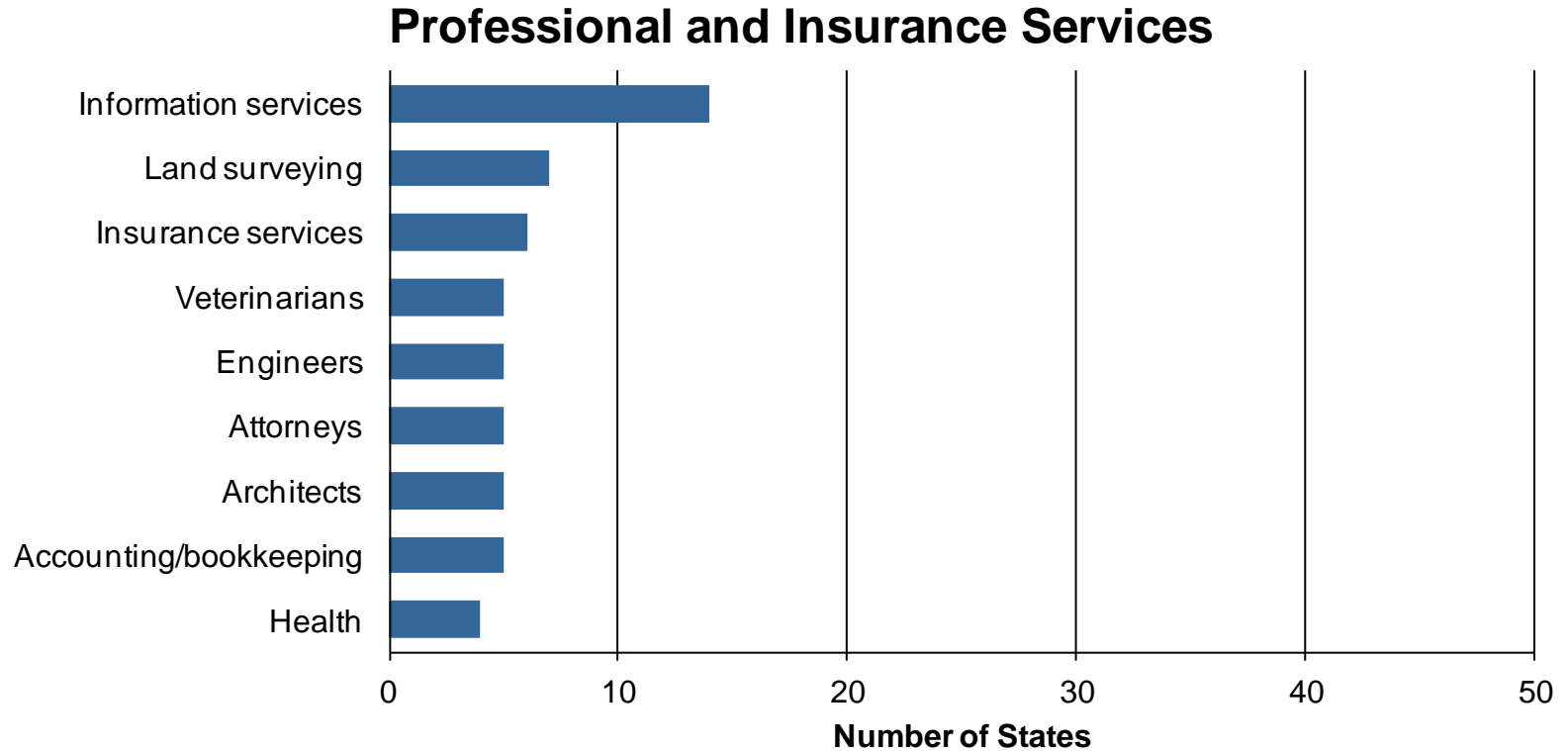


**Less than 10:** taxi operations; secretarial/court reporting; check & debt collection; lobbying/consulting; telemarketing services; travel agent services; magazine; newspaper; local radio/television; billboards; national radio/television.

\* Data supplied by Federation of Tax Administrators, Sales Taxation of Services: 2007 Updates

# ***Taxation of Services***

## **Services Taxable in Other States\***



# ***Taxation of Services***

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## **Potential Benefits and Challenges of Taxing Services**

<b>Benefits</b>	<b>Challenges</b>
Substantial new state revenue.	Comprehensive implementation may strain tax department and businesses.
More equitable and easier to administer.	Could increase the tax burden on low income households.
Maintain revenues over long term and increase revenue stability.	May encounter political challenges (e.g., Florida).
If narrowly tailored, can reduce the regressivity of the tax.	Use tax policies may be difficult to implement.